

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>	Printed Name		License Number	

VILLAGE OF FOUNTAIN

Mason County, Michigan

FINANCIAL STATEMENTS

June 30, 2007

VILLAGE OF FOUNTAIN

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	3
Statement of Activities.....	4
Fund Financial Statements:	
<i>Governmental Funds:</i>	
Balance Sheet.....	5
Reconciliation of Fund Balances of Governmental Funds to Net Assets of	
Governmental Activities	6
Statement of Revenues, Expenditures and Changes in Fund Balances.....	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in	
Fund Balances of Governmental Funds to the Statement of Activities.....	8
<i>Proprietary Funds:</i>	
Statement of Net Assets	9
Statement of Revenues, Expenses, and Changes in Net Assets.....	10
Statement of Cash Flows.....	11
Notes to Financial Statements.....	13
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	22
Budgetary Comparison Schedule – Special Revenue Fund – Major Street Fund	23
Budgetary Comparison Schedule – Special Revenue Fund – Local Street Fund.....	24
Other Supplemental Information:	
<i>General Fund:</i>	
Detailed Schedule of Revenues.....	26
Detailed Schedule of Expenditures.....	27

BERTHIAUME
& COMPANY

Certified Public Accountants



60 Harrow Lane
Saginaw, Michigan 48638

(989) 791-1555
Fax (989) 791-1992

INDEPENDENT AUDITORS' REPORT

To the Members of Village Council
Village of Fountain, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Fountain as of and for the year ended June 30, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Fountain's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Fountain, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Fountain's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Village has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not a required part of, the financial statements.

Berthiaume & Co.

October 5, 2007

BASIC FINANCIAL STATEMENTS

VILLAGE OF FOUNTAIN

STATEMENT OF NET ASSETS

June 30, 2007

	<i><u>Governmental Activities</u></i>
Assets:	
Cash and cash equivalents	\$ 234,542
Receivables	9,894
Capital assets:	
Nondepreciable capital assets	900
Depreciable capital assets, net	<u>139,071</u>
Total assets	<u>384,407</u>
Liabilities:	
Accounts payable and accrued expenses	<u>7,412</u>
Total liabilities	<u>7,412</u>
Net assets:	
Invested in capital assets	139,971
Restricted for:	
Streets	155,770
Unrestricted net assets	<u>81,254</u>
Total net assets	<u>\$ 376,995</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FOUNTAIN

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Asset</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<i>Governmental activities:</i>				
General government	\$ 13,964	\$ 15	\$ -	\$ (13,949)
Public safety	5,432	-	-	(5,432)
Public works	43,130	4,617	34,751	(3,762)
Recreation and culture	4,534	-	-	(4,534)
Total governmental activities	<u>\$ 67,060</u>	<u>\$ 4,632</u>	<u>\$ 34,751</u>	<u>(27,677)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purpose				11,283
Grants and contributions not restricted to specific programs				13,599
Unrestricted investment earnings				10,078
Miscellaneous				<u>5,966</u>
Total general revenues				<u>40,926</u>
Change in net assets				13,249
Net assets, beginning of year				<u>363,746</u>
Net assets, end of year				<u>\$ 376,995</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FOUNTAIN

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2007

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Total Governmental Funds</i>
Assets:				
Cash and cash equivalents	\$ 76,781	\$ 85,028	\$ 67,152	\$ 228,961
Due from other governmental units	<u>4,439</u>	<u>4,255</u>	<u>1,200</u>	<u>9,894</u>
Total assets	<u>\$ 81,220</u>	<u>\$ 89,283</u>	<u>\$ 68,352</u>	<u>\$ 238,855</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 5,542	\$ 1,865	\$ -	\$ 7,407
Total liabilities	<u>5,542</u>	<u>1,865</u>	<u>-</u>	<u>7,407</u>
Fund balances:				
Unreserved:				
General fund	75,678	-	-	75,678
Special revenue funds	<u>-</u>	<u>87,418</u>	<u>68,352</u>	<u>155,770</u>
Total fund balances	<u>75,678</u>	<u>87,418</u>	<u>68,352</u>	<u>231,448</u>
Total liabilities and fund balances	<u>\$ 81,220</u>	<u>\$ 89,283</u>	<u>\$ 68,352</u>	<u>\$ 238,855</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FOUNTAIN

RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2007

Total fund balances for governmental funds \$ 231,448

Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	209,873	
Less accumulated depreciation	<u>(72,591)</u>	137,282

The assets and liabilities of internal service funds are included in governmental
activities in the statement of net assets.

	<u>8,265</u>
--	--------------

Net assets of governmental activities \$ 376,995

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FOUNTAIN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2007

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Total Governmental Funds</i>
Revenues:				
Property taxes	\$ 11,283	\$ -	\$ -	\$ 11,283
Licenses and permits	15	-	-	15
State grants	15,124	25,920	7,306	48,350
Interest and rents	3,295	3,992	2,582	9,869
Other revenue	5,966	-	-	5,966
Total revenues	<u>35,683</u>	<u>29,912</u>	<u>9,888</u>	<u>75,483</u>
Expenditures:				
Current				
General government	9,572	-	-	9,572
Public safety	5,432	-	-	5,432
Public works	5,380	28,530	5,201	39,111
Recreation and culture	4,534	-	-	4,534
Total expenditures	<u>24,918</u>	<u>28,530</u>	<u>5,201</u>	<u>58,649</u>
Excess (deficiency) of revenues over expenditures	<u>10,765</u>	<u>1,382</u>	<u>4,687</u>	<u>16,834</u>
Other financing sources (uses):				
Transfers in	-	-	6,499	6,499
Transfers out	<u>-</u>	<u>(6,499)</u>	<u>-</u>	<u>(6,499)</u>
Total other financing sources (uses)	<u>-</u>	<u>(6,499)</u>	<u>6,499</u>	<u>-</u>
Net change in fund balances	10,765	(5,117)	11,186	16,834
Fund balances, beginning of year	<u>64,913</u>	<u>92,535</u>	<u>57,166</u>	<u>214,614</u>
Fund balances, end of year	<u>\$ 75,678</u>	<u>\$ 87,418</u>	<u>\$ 68,352</u>	<u>\$ 231,448</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FOUNTAIN

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Net change in fund balances - total governmental funds \$ 16,834

Total change in net assets reported for governmental activities in the statement
of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is depreciated over their
estimated useful lives and reported as depreciation expense.

Capital outlay	-	
Less depreciation expense	<u>(4,392)</u>	(4,392)

The net revenue (expense) of the internal service fund is reported with
governmental activities.

807

Change in net assets of governmental activities \$ 13,249

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FOUNTAIN

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

June 30, 2007

	<i><u>Governmental Activities</u></i>
	<i><u>Internal Service Fund</u></i>
	<i><u>Motor Pool Fund</u></i>
Assets:	
<i>Current assets:</i>	
Cash and cash equivalents	\$ 5,581
Total current assets	<u>5,581</u>
<i>Noncurrent assets:</i>	
Capital assets:	
Depreciable capital assets, net	<u>2,689</u>
Total noncurrent assets	<u>2,689</u>
Total assets	<u>8,270</u>
Liabilities:	
<i>Current liabilities:</i>	
Accounts payable	<u>5</u>
Total current liabilities	<u>5</u>
Total liabilities	<u>5</u>
Net assets:	
Invested in capital assets	2,689
Unrestricted	<u>5,576</u>
Total net assets	<u>\$ 8,265</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FOUNTAIN

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2007

	<i><u>Governmental Activities</u></i>
	<i><u>Internal Service Fund</u></i>
	<i><u>Motor Pool Fund</u></i>
Operating revenues:	
Equipment rental	\$ 4,617
Total operating revenues	<u>4,617</u>
Operating expenses:	
Repairs and maintenance	3,647
Depreciation	<u>367</u>
Total operating expenses	<u>4,019</u>
Operating income	<u>598</u>
Non-operating revenues (expenses);	
Interest income	<u>209</u>
Total non-operating revenues (expenses)	<u>209</u>
Net income (loss)	807
Net assets, beginning of year	<u>7,458</u>
Net assets, end of year	<u><u>\$ 8,265</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FOUNTAIN

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended June 30, 2007

	<i>Governmental Activities</i>
	<i>Internal Service Fund</i>
	<i>Motor Pool Fund</i>
Cash flow from operating activities:	
Cash received for interfund services	\$ 4,617
Cash payments to suppliers for goods and services	<u>(3,647)</u>
Net cash provided by operating activities	<u>970</u>
Cash flows from investing activities:	
Interest received	<u>209</u>
Net cash provided by investing activities	<u>209</u>
Net increase in cash and cash equivalents	<u>1,179</u>
Cash and cash equivalents, beginning of year	<u>4,402</u>
Cash and cash equivalents, end of year	<u><u>\$ 5,581</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 598
Adjustments:	
Depreciation	367
Change in assets and liabilities:	
Accounts payable	<u>5</u>
Net cash provided by operating activities	<u><u>\$ 970</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Fountain conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village and its component units, if any. In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are no component units included in the Village's reporting entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government. These statements distinguish between activities that are governmental and those that are business-type activities. There are no business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the Village's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Village does not allocate indirect costs. In creating the government-wide financial statements, the Village has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Village as an entity and the change in the Village's net assets resulting from current year activities.

Fund Financial Statements:

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

The proprietary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting.

The Village reports the following major governmental funds:

The **General Fund** is the primary operating fund of the Village. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The **Major Street Fund** is used to account for the maintenance and construction of the Village's major street system.

The **Local Street Fund** is used to account for the maintenance and construction of the Village's local street system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Village has elected not to follow subsequent private-sector guidance.

Assets, Liabilities and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments, if any, are stated at fair value. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

Interfund Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Inventories and Prepaid Items – Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Village defines capital assets as assets with an initial individual cost in excess of \$500. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after July 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Machinery and equipment	15 years

Compensated Absences – There is no accumulation of earned but unused sick and vacation days. Therefore, no liability is recorded in the government-wide financial statements or the proprietary fund financial statements.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations, if any, are reported as liabilities in the applicable governmental activities or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Property Taxes:

Properties are assessed as of December 1. Taxes are levied on July 1.

The 2006 taxable valuation of the Village totaled \$2,574,333, on which ad valorem taxes levied consisted of 4.3401 mills for the Village’s operating purposes.

The delinquent real property taxes of the Village are purchased by Mason County.

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. A proposed operating budget by fund for each year is submitted to the Village Council. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted by adoption of the Village Council.
4. Any revision that alters the total expenditures of any fund must be approved by the Village Council.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the Village Council is included in the required supplemental information.
7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the Village did not incur expenditures that were in excess of the amounts budgeted.

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Village Council is in accordance with Public Act 196 of 1997. The Village's deposits and investments have been made in accordance with statutory authority.

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

The Village's deposits are subject to several types of risk, which are presented in more detail as follows:

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. The Village does not have a deposit policy for custodial credit risk. At year-end, the Village had \$235,465 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$103,912 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. At year end, the Village had no investments.

NOTE 4: CAPITAL ASSETS

Governmental activities capital asset activity for the year ended June 30, 2007 was as follows:

	<i><u>July 1, 2006</u></i>	<i><u>Additions</u></i>	<i><u>Retirements</u></i>	<i><u>June 30, 2007</u></i>
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 900	\$ -	\$ -	\$ 900
Depreciable capital assets:				
Buildings and improvements	201,594	-	-	201,594
Furniture and fixtures	7,379	-	-	7,379
Machinery and equipment	<u>5,500</u>	<u>-</u>	<u>-</u>	<u>5,500</u>
Total depreciable capital assets	214,473	-	-	214,473
Accumulated depreciation	<u>(70,643)</u>	<u>(4,759)</u>	<u>-</u>	<u>(75,402)</u>
Depreciable capital assets, net	<u>143,830</u>	<u>(4,759)</u>	<u>-</u>	<u>139,071</u>
Governmental activities, capital assets, net	<u>\$ 144,730</u>	<u>\$ (4,759)</u>	<u>\$ -</u>	<u>\$ 139,971</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 4,392
Public works	<u>367</u>
Total governmental activities	<u>\$ 4,759</u>

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 5: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At year end, the Village had no deferred revenue.

NOTE 6: LONG-TERM LIABILITIES

The Village may issue bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Village.

At year end, the Village had no long-term liabilities.

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the Village's governmental activities in the aggregate are as follows:

	<i><u>Governmental Activities</u></i>
Receivables:	
Intergovernmental	<u>\$ 9,894</u>
Total receivables	<u><u>\$ 9,894</u></u>
Accounts payable and accrued expenses:	
Accounts payable	<u>\$ 7,412</u>
Total accounts payable and accrued expenses	<u><u>\$ 7,412</u></u>

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 8: INTERFUND BALANCES AND TRANSFERS

At year end, there were no interfund receivable and payable balances.

Interfund transfers reported in the fund statements were as follows:

<u><i>Funds Transferred From</i></u>	<u><i>Funds Transferred To</i></u>	<u><i>Amount</i></u>
Major Street Fund	Local Street Fund	\$ <u>6,499</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9: RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

NOTE 10: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Pension Plan:

The Village does not offer a pension plan.

Post Employment Benefits:

The Village does not offer any post employment benefits.

Deferred Compensation Plan:

The Village does not offer a deferred compensation plan.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF FOUNTAIN

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	<i>Budgeted Amounts</i>			<i>Actual</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Over (Under)</i>
				<i>Final Budget</i>
Revenues:				
Property taxes	\$ 8,800	\$ 8,800	\$ 11,283	\$ 2,483
Licenses and permits	-	-	15	15
State grants	16,000	16,000	15,124	(876)
Interest and rents	1,500	1,500	3,295	1,795
Other revenue	6,830	6,830	5,966	(864)
Total revenues	33,130	33,130	35,683	2,553
Expenditures:				
Current				
General government	16,650	15,600	9,572	(6,028)
Public safety	5,480	5,480	5,432	(48)
Public works	6,000	7,050	5,380	(1,670)
Recreation	4,500	4,534	4,534	-
Total expenditures	32,630	32,664	24,918	(7,746)
Excess (deficiency) of revenues over expenditures	500	466	10,765	10,299
Other financing sources (uses):				
Net change in fund balance	500	466	10,765	10,299
Fund balance, beginning of year	64,913	64,913	64,913	-
Fund balance, end of year	\$ 65,413	\$ 65,379	\$ 75,678	\$ 10,299

VILLAGE OF FOUNTAIN

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	<i>Budgeted Amounts</i>			<i>Actual Over (Under) Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues:				
State grants	\$ 25,000	\$ 25,000	\$ 25,920	\$ 920
Interest and rents	1,000	1,000	3,992	2,992
Total revenues	26,000	26,000	29,912	3,912
Expenditures:				
Current				
Public works	26,000	37,501	28,530	(8,971)
Total expenditures	26,000	37,501	28,530	(8,971)
Excess (deficiency) of revenues over expenditures	-	(11,501)	1,382	12,883
Other financing sources:				
Transfers out	-	-	(6,499)	(6,499)
Total other financing sources	-	-	(6,499)	(6,499)
Net change in fund balance	-	(11,501)	(5,117)	6,384
Fund balance, beginning of year	92,535	92,535	92,535	-
Fund balance, end of year	<u>\$ 92,535</u>	<u>\$ 81,034</u>	<u>\$ 87,418</u>	<u>\$ 6,384</u>

VILLAGE OF FOUNTAIN

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	<i>Budgeted Amounts</i>			<i>Actual Over (Under)</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Final Budget</i>
State grants	\$ 8,000	\$ 8,000	\$ 7,306	\$ (694)
Interest and rents	1,000	1,000	2,582	1,582
Total revenues	9,000	9,000	9,888	888
Expenditures:				
<i>Current:</i>				
Public works	15,250	15,250	5,201	(10,049)
Total expenditures	15,250	15,250	5,201	(10,049)
Excess (deficiency) of revenues over expenditures	(6,250)	(6,250)	4,687	10,937
Other financing sources:				
Transfers in	-	-	6,499	6,499
Net change in fund balance	(6,250)	(6,250)	11,186	17,436
Fund balance, beginning of year	57,166	57,166	57,166	-
Fund balance, end of year	<u>\$ 50,916</u>	<u>\$ 50,916</u>	<u>\$ 68,352</u>	<u>\$ 17,436</u>

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF FOUNTAIN

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended June 30, 2007

Current Taxes:

Property taxes	\$ 11,283
----------------	-----------

Licenses and permits:

Business licenses and permits	15
-------------------------------	----

State Grants:

State revenue sharing - sales tax	13,599
Metro Act	1,525
	<u>15,124</u>

Interest and rents:

Interest	<u>3,295</u>
----------	--------------

Other Revenue:

Reimbursements	5,822
Other	144
	<u>5,966</u>

Total revenues	<u>\$ 35,683</u>
----------------	------------------

VILLAGE OF FOUNTAIN

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended June 30, 2007

General Government:

Village Council:

Personnel	\$ 210
Other	2,022
	<u>2,232</u>

President:

Personnel	230
Other	768
	<u>998</u>

Clerk:

Personnel	930
Other	988
	<u>1,918</u>

Treasurer:

Personnel	665
Other	942
	<u>1,607</u>

Elections:

Other	<u>302</u>
-------	------------

Building and Grounds:

Personnel	50
Utilities	98
Other	2,343
	<u>2,491</u>

Attorney:

Contracted services	<u>24</u>
---------------------	-----------

Total general government	<u>9,572</u>
--------------------------	--------------

Public Safety:

Liquor enforcement:

Other	<u>495</u>
-------	------------

Fire:

Personnel	100
Utilities	196
Other	4,641
	<u>4,937</u>

Total public safety	<u>5,432</u>
---------------------	--------------

VILLAGE OF FOUNTAIN

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, continued

Year Ended June 30, 2007

Public Works:

Water:	
Other	<u>413</u>
Sidewalks:	
Other	<u>140</u>
Street Lights:	
Utilities	257
Other	<u>4,520</u>
	<u>4,777</u>
Trash:	
Other	<u>50</u>
Total public works	<u>5,380</u>

Recreation:

Parks:	
Other	<u>4,534</u>
Total recreation	<u>4,534</u>
Total expenditures	<u><u>\$ 24,918</u></u>